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South Korea: Economic Decision Making in Transition

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An Intelligence Assessment

~~Secret~~

EA 83-10015
January 1983

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South Korea: Economic Decision Making in Transition [redacted] 25X1

An Intelligence Assessment

This assessment was prepared by [redacted] 25X1
Office of East Asian Analysis, with [redacted] 25X1
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Central Reference. Comments and queries are welcome and may be directed to the Chief, Northeast Asia Division, OEA, [redacted] 25X1

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South Korea: Economic Decision Making in Transition [redacted] 25X1

Summary

Information available as of 17 January 1983 was used in this report.

South Korea's highly efficient economic decision making process has come under increasing strains in recent years as Seoul attempts to devise new approaches to manage a large and complex economy that has grown from $2 billion in the early 1960s to $67 billion today. [redacted] 25X1

A number of President Chun Doo Hwan's leading economic planners believe that decisionmaking must evolve beyond the authoritarian economic command-and-control system established by President Park Chung Hee. Some have argued for a system in which decisionmaking responsibilities in the government are more widely shared, and others have called for liberalization or greater reliance on market forces. Traditionalists, both within and outside the government, have resisted change and this struggle, combined with less decisive top leadership, has contributed to some of the disarray in the decisionmaking process. [redacted] 25X1

The struggle has been most pronounced in three key areas:

- *Government organization.* Many Korean officials have criticized a move to curtail the authority of the once-dominant Economic Planning Board (EPB) and to decentralize the national-level economic decision making bureaucracy; this has led to infighting among the various economic ministries. Jurisdictional disputes delayed the government's response to Dow Chemical's merger proposal, thus contributing to the decision of that company, the country's largest foreign investor, to leave the country.

- *Government-business relations.* Some major businesses, particularly those that benefited from the close government-business partnership of the Park period, have resisted moves toward more reliance on market forces; this has contributed to shaky business confidence. Domestic investment has been slack in recent years, in part because of business uncertainty about government policy.

- *Foreign investment.* Here too, major protectionist-minded Korean firms have resisted liberalization measures and some potential foreign investors have been alienated. Several US firms, including IBM, considered investments in South Korea but went elsewhere because of difficulties in dealing with the government. [redacted] 25X1

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[redacted] 25X1

Resolving these problems is especially important for Chun, because coherent national economic planning, stronger business confidence, and continued inputs of advanced technology that foreign investment brings are critical to the country's economic well-being. To succeed, we believe that Chun must come to grips with the conflict between the liberalizers and traditionalists and define lines of authority more clearly. A mix of the old and new approaches would probably serve South Korea's interests best: providing assistance to selected emerging industries and restoring central authority to the EPB would enhance long-term export prospects in new product areas and lessen bureaucratic infighting, while opening the economy to greater foreign investment would enable the country to upgrade its industrial base more quickly. [redacted] 25X1

South Korea's relatively bright growth potential over the longer term will not be realized unless Chun resolves the problems in the decisionmaking process. How well he handles the current strains could also have a significant impact on political stability in South Korea. In general, we believe the President and his principal aides are addressing these problems and will deal successfully with most of them, but some strains in economic decision making are likely for several years. [redacted] 25X1

In the near term, US firms seeking to invest in South Korea will continue to have difficulty dealing with the South Korean Government because traditionalists will seek to protect domestic businesses. The liberalizers in the government are likely to open up the Korean investment and import markets gradually, however, and US firms should find fewer restrictions by the mid-1980s. In broader terms, a well-managed, high-growth Korean economy will result in strong demand for imports from the United States, enable Seoul to spend more on defense, and reduce its dependence on the United States. [redacted] 25X1

[redacted]

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South Korea: Economic Decision Making in Transition[1] [redacted]

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Decisionmaking Under Park

Efficient decision making has been a key to South Korea's spectacular economic success over the past two decades. International bankers and businessmen have consistently ranked South Korea's planning process and its ability to implement policy among the most effective in the world. Adopting the Japanese model of export-led industrial development in the early 1960s, South Korea became one of the fastest growing developing countries. Between 1962 and 1979—when President Park Chung Hee was assassinated—South Korean industrial production grew 20 percent annually, real GNP increased almost 10 percent a year, and per capita national income went from less than $100 to $1,550. This rapid development contributed to relative political stability and the legitimacy of the Park government. [redacted]

Several factors contributed to the efficiency and success of South Korean economic planning in the 1960s and 1970s. President Park had a strong personal commitment to economic development. He initiated a highly structured, well-defined decisionmaking process in the early 1960s and ensured that economic policy was controlled by highly competent professional technocrats, most of whom had advanced degrees from US universities. While his authoritarian system was criticized for its restrictions on political rights, it had certain economic advantages: the government could mobilize resources for key projects and plan for the long term without being overly affected by day-to-day pressures for consumer and special interest benefits. Speed, flexibility, and pragmatism generally characterized South Korean economic decision making throughout the 18 years of Park's rule. [redacted]

The Economic Planning Board (EPB), established in 1961, was at the center of Park's system. It prepared formal development plans, drafted the annual budgets, coordinated positions on policy issues within the ministries, and implemented policy. As such, it quickly became the dominant force in economic policy making. [redacted] 25X1

Implementation of policy was highly effective because of a close business-government relationship. The government provided an especially favorable environment for a small number of selected entrepreneurs: low-cost financing, tax exemptions, and assistance in marketing abroad. A well-defined, mutually satisfactory relationship developed between the Park government and the business leaders who built South Korea's major corporations—including Hyundai, Daewoo, and Samsung. With government and business sharing a common interest in economic growth, a kind of "Korea, Inc." developed with the government as the dominant partner. In fact, government intervention in the private sector was pervasive and encompassing. [redacted] 25X1

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Decisionmaking Under Chun

In many respects the structure of economic decision making and the positive traits that characterized economic planning under Park are still present. Chun Doo Hwan has maintained a strong government commitment to and emphasis on economic development, and he relies on a cadre of talented, largely US-trained economists. For the most part, sound economic principles, not political expediency, are the bases for economic decisions. Day-to-day decisions are timely, well researched, and coordinated with appropriate officials. [redacted] 25X1

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Formal five-year plans—although less specific than earlier plans—continue to provide the framework for South Korean policy. The EPB prepared the Fifth Five-Year Plan (1982-86) in consultation with the Korea Development Institute (KDI)—a government-funded economic think tank—and with inputs from

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[redacted]

South Korea: The Economic Decision Makers

- **President** — **Chun Doo Hwan**
  - **Blue House Senior Secretary for Economic Affairs** — **Kim Jae Ik**
  - **Prime Minister** — **Kim Sang Hyup**
    - **Deputy Prime Minister** — **Kim Joon Sung**
      - Economic Planning Board — **Kim Joon Sung**
      - Ministry of Finance — **Kang Kyong Shik**
      - Ministry of Commerce and Industry — **Kim Dong Whie**
      - Ministry of Agriculture and Fisheries — **Pak Chong Mun**
      - Ministry of Energy and Resources — **Suh Sang-chul**
      - Ministry of Science and Technology — **Lee Chung Oh**
      - Ministry of Foreign Affairs — **Lee Bum Suk**
      - Ministry of Communication — **Choe Sun Tal**
      - Ministry of Construction — **Kim Jong Ho**
      - Ministry of Labor — **Chung Han Joo**
      - Ministry of Transport — **Yi Hui Song**
- Bank of Korea — **Hah Yeung Ki**
- Korea Development Institute — **Kim Ki Hwan**

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business and academic circles. The plan is an internally consistent document and highly sophisticated.

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The chief architect of South Korean economic policy since Chun came to power in 1980 has been Kim Jae Ik, an internationally respected economist with a doctorate from Stanford. He presides over the economic decision making process from his position as senior secretary for economic affairs in the Blue House (presidential mansion). Kim Ki Hwan, an exceptional economist with a doctorate from the University of California at Berkeley, exerts an important influence on economic policy as president of the

KDI. Kim is highly respected by US bankers, US Embassy officials, and his Korean associates. Economic portfolios in the Cabinet for the most part are held by well-respected economists with strong credentials. The Minister of Finance, Kang Kyong Shik—who is probably the most influential of the Cabinet ministers—has a master's degree from Syracuse University. The director of the EPB, Kim Joon Sung, is a professional banker with extensive experience in private and government banking. [redacted]

Chun's economic planners have implemented prudent economic policies. Kim Jae Ik convinced the President that government overstimulation of the economy in the late 1970s was largely responsible for the economy's ills in 1979-80 and that fiscal austerity was the best prescription. Some economists, however, resisted this shift, which was a major departure from the growth-oriented policies of the 1970s. Chun, however, gave Kim wide latitude in formulating policy, and the measures the government adopted in 1980 and 1981 reflected to a great extent the prescriptions Kim and his backers had ordered. Seoul enacted the politically unpopular measures needed to cool the overheated economy, reduce the country's high inflation, and bring its external finances into order. [redacted]

As a result, South Korea's economic fortunes have improved greatly over the past two years. The inflation rate has been reduced from 40 percent to 5 percent, the current account deficit has been more than halved, and real GNP growth—at about 6 percent in 1982—is once again among the highest in the world. The austerity measures have enabled South Korea to avoid the balance-of-payments difficulties faced by so many other LDCs and to retain the confidence of international bankers. Indeed, most bankers have given high marks to Korea's performance in 1982. [redacted]

Developing Problems

South Korea's very success in managing economic development and the resulting expansion of the economy have put increasing strains on the decisionmaking machinery in recent years. The economy has reached a more mature stage of development—GNP was only \$2 billion in 1962; in 1982 it reached \$67 billion—and extensive, day-to-day government management of the economy is increasingly difficult. Investment decisions have increased in number and complexity, making it more difficult to analyze and direct the country's industrial development. Most Korean observers, for example, believe that the Park government pushed investment in heavy industry far too fast in the late 1970s. Such policy mistakes contributed to severe economic difficulties in 1979-80 and convinced many observers that South Korea needed to reduce government intervention in the economy and to rely more on 25X1 market forces in allocating resources. In addition, Seoul has come under increasing pressure in recent years from its major trading partners in the United States and Western Europe to open up its economy by reducing government import barriers and subsidies to exporters. The issue of a new role for the government in managing the economy has led to increased debate among South Korean economic decision makers. [redacted] 25X1

[redacted] 25X1

Liberalizers Versus Traditionalists

Economic policy making has been disrupted by the struggle between liberalizers (those who espouse greater reliance on market mechanisms) and traditionalists (those who favor a continuation of state-led economic development) [redacted] 25X1

The official policy of the Chun government is to reduce intervention and open the economy to greater reliance on market forces. Top government officials who have studied in the United States, such as Secretary Kim and Finance Minister Kang, have led the effort. Both have pressed for reducing import restrictions, easing foreign investment regulations, turning control of the banking system over to the private sector, easing regulations on foreign exchange flows, and reducing subsidies. [redacted] 25X1

These efforts have run into strong resistance from 25X1 other segments of the government, especially at the Ministry of Commerce and Industry (MCI) and at the middle levels of the economic bureaucracy. The traditionalists argue that domestic business, particularly infant industries, must be protected from imports and foreign investment, and they cite increasing import protection in developed countries to help make their case. They point to the success of government-led economic development in the past and use the example of the Japanese model to bolster their argument. [redacted]

According to Embassy reporting, the liberalizers initially swayed Chun, and his public and private comments echoed the need to open the economy. Over the past year, however, the traditionalists appear to have gained ground by stressing to Chun that domestic businessmen would be subjected to increased foreign competition. As a result, movement in liberalizing the economy has been halting. Chun, in fact, may not be aware of the extent to which the struggle between the two camps has caused disarray and confusion in South Korean decisionmaking. [redacted]

The economic impact of liberal reforms is difficult to predict. In such industrial areas as steel, ships, and autos, heavy government involvement is probably beneficial because the domestic market is small and the industries lack maturity. In other areas, textiles and footwear for example, more reliance on market forces may strengthen the country's competitiveness. Liberalization of the South Korean import and foreign investment regime would also be beneficial to the country. [redacted]

Government Reorganization and Cabinet Shuffles

A reorganization of the economic ministries in November 1981, which sought to decentralize national-level economic decision making, appears actually to have further hampered the overall effectiveness of the decisionmaking process. In addition to governmentwide cuts in personnel and organizations, Chun shifted all international financial responsibilities from the EPB to the Ministry of Finance. More recently, the Ministry of Foreign Affairs has also taken on increased responsibilities in economic areas. The EPB has thus been stripped of much of its authority over other ministries, although it maintains its coordinating role. The weakened position of the EPB and the lack of well-defined lines of authority have resulted in more frequent and more contentious turf battles between ministries. [redacted]

The turnover of senior personnel in the economic ministries has also slowed decisionmaking. Chun, responding to flagging business confidence, replaced his economic ministers last January in an effort to inject more business experience into the Cabinet. He shuffled economic ministers in May and in June, again for political reasons, this time in response to a major financial scandal. Although the new ministers have similar backgrounds and skills to those displaced, the lack of continuity has been disruptive. [redacted]

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We expect another major Cabinet reshuffle to take place early in 1983. Presidential adviser Kim, Finance Minister Kang, and the Deputy Prime Minister were rumored to be on the way out in late 1982, because a financial reform bill they had pushed was defeated in the National Assembly. More recently, however, there have been signs that Kim and Kang may remain. In any event, additional changes would lead to greater disarray and confusion in the short term as the new ministers learn their portfolios. The shuffles, however, should not interfere with the implementation of prudent policies, because the new ministers will likely have similar backgrounds and skills. [redacted]

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Business-Government Relationship

Although we believe movement toward greater reliance on market forces will lead to higher growth rates in the long term, the transition has inevitably resulted in a less-than-smooth implementation of government policy by business in the near term and has contributed to a weakening in business confidence. Prices are gradually replacing government directives as signals for business investment. The business community, however, is not fully in favor of the liberalization trend. Although businessmen want more say in making investment decisions and greater freedom from government regulation, they do not want to lose their traditional advantages, particularly subsidized credit and protection from foreign competition. [redacted]

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Other factors have made businesses less responsive to government policy direction. Businessmen were burned by following Seoul's advice and overinvesting in heavy industry in the late 1970s. They now have tremendous excess capacity and as a result, have lost some confidence in government planners. [redacted]

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The business community is also concerned about Chun's basic attitude toward private enterprise, as well as about his economic policies. The President got off to a bad start with business because of a hastily designed industrial restructuring program that mandated mergers in six industries. The forced mergers were quickly followed by orders to divest real estate holdings and sell subsidiaries. The President's emphasis on the elimination of corruption and his moral exhortations further undermined business confidence. Although Chun has been trying to win business favor over the past year, Seoul has yet to reestablish the close working ties to the business community that existed previously. This has contributed to weak domestic investment in recent years. [redacted]

Even if business confidence were strong, we believe economic conditions—notably the weak financial position of most Korean enterprises—augur against substantial new investment. In the textile industry, for example, Seoul announced a modernization program in 1981 to upgrade equipment and provided $12 million in low-interest loans for such investments. Businessmen, although aware of the need to upgrade equipment, did not believe they were in a financial position to do so. As a result, only 60 percent of the funds were used. [redacted]

Foreign Investment Policy

The various strains and problems that have developed in decisionmaking are perhaps most apparent in Seoul's foreign investment policies. Reporting from the Embassy and the comments of American businessmen and the press suggest that South Korea's foreign investment image has been tarnished by problems foreign investors have had in dealing with Seoul. Several US firms, including IBM, considered investments in South Korea but went elsewhere because of difficulties in dealing with the government. [redacted]

Foreign investment policy making has suffered as a result of both the struggle between government liberalizers and traditionalists and the November 1981 reorganization. Struggles between the ministries for authority over foreign investment slows decisionmaking. Moreover, attitudes toward foreign investment among the various ministries differ significantly. Most top Korean Cabinet officials believe Seoul should actively encourage foreign investment, and a major increase in such inflows is called for in the Fifth Five-Year Plan. Many other officials, however—especially at the Ministry of Commerce and Industry—believe foreign investment should not be encouraged because it siphons profits from domestic firms. We believe these divergent views underscore the conflicting goals Seoul is trying to satisfy. The government wants more foreign investment but also wants to protect domestic enterprise. Without one ministry clearly in charge, these conflicts are time consuming and convey mixed signals to foreign investors. Dow Chemical's withdrawal and General Motors' decision to give up management control of its joint venture were caused in part by delays in South Korean 25X1 decisionmaking. [redacted] 25X1

Implementation of policy is also a problem. In many cases, regulations favorable to foreign investors are not translated into action at the working level of the bureaucracy. Seoul, for example, has enacted legislation that significantly increases the number of industries in which foreign investment is permitted. In several cases, however, foreign investors have sought to invest in these areas and have been turned down by working-level officials. The world's largest molybdenum producer, for example, sought to enter a joint 25X1 venture with Hyundai in accordance with government guidelines but backed out because of opposition from officials of the Ministry of Energy and Resources. [redacted] 25X1

Recent Embassy and press reporting suggest that the government is becoming increasingly aware of the problems that exist in making foreign investment policy. A committee headed by Kim Chang-jin in the Prime Minister's office has been set up to handle foreign investment disputes, and Kim appears to be pushing hard to improve the investment climate. We 25X1 believe the recent withdrawal of Dow Chemical—the largest foreign investor in the country—will give added impetus to these efforts. [redacted] 25X1

Prospects

We believe the overall efficiency of South Korea's economic decision making structure and the policies in place will enable the country to achieve a fairly good growth rate in the coming year. The country's growth potential over the longer term, however, will not be realized unless the problems in the decision-making process are resolved. Perhaps most important, we believe Chun will need to lessen the disruptions caused by the struggle between the liberalizers and traditionalists. [redacted]

Some of the policies advocated by the liberalizers are probably necessary, especially with regard to foreign investment. South Korea needs the technology embodied in foreign investment to broaden its industrial base. We believe the country's top economic planners—and Chun himself—are committed to creating a more favorable environment for foreign investment, and this could result in a more consistent policy in the future. [redacted]

At the same time, South Korea's traditional management approaches have clearly worked, and moving away from them too rapidly is, at the least, disruptive. Most observers agree, for instance, that economic decision making was more efficient when the EPB was the dominant ministry, and recent reporting indicates many Korean officials are attempting to restore the EPB to its former position. The director of the EPB recently obtained President Chun's concurrence to return the powers the EPB lost in the 1981 reorganization on a gradual, step-by-step basis. Other elements within the government, however, are attempting to block these efforts. [redacted]

Chun must also avoid bowing to political pressures, such as those from the National Assembly and business to provide more government stimulus and larger wage increases to boost short-term growth. Such short-term political expediency would be costly to the country's long-term economic performance. A stimulus package announced this summer went further than many economists thought prudent and was dictated in part by political considerations and pressure from business. [redacted]

Failure to come to grips with these issues would increase the possibility of political instability. The public has high expectations for a return to rapid growth and improvements in living standards. The economy's growth potential, however, has been reduced because of its more mature stage of development and a less favorable international economic environment. Under such circumstances, inefficient management could carry a heavy price. [redacted] 25X1

Implications for the United States 25X1

The outcome of the struggle between the liberalizers and traditionalists will have an important impact on US economic interests and US-Korean economic relations. The longer South Korea takes to open up its markets to imports and foreign investment, the more likely are troublesome disputes with the United States. In the near term, US firms seeking to invest in South Korea will continue to have difficulty in dealing with the Korean Government because traditionalists at the working level will seek to protect domestic 25X1 interest. This will be especially true in service sectors, such as banking and insurance, where US firms have been pushing for "fair" treatment. [redacted] 25X1

We expect the liberalizers in the government to open up the Korean import market gradually, and US exporters should find fewer restrictions by the mid-1980s. The pace of import liberalization will depend in part on the performance of Korean exports and on protectionist trends in the developed countries. Increased import restrictions in the industrial countries would bolster the case of the traditionalists to slow Korean import liberalization. [redacted] 25X1

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In broader terms, a well-managed, high-growth economy will result in strong demand for imports from the United States, enable South Korea to spend more on defense, and reduce its dependence on the United States. [redacted] 25X1

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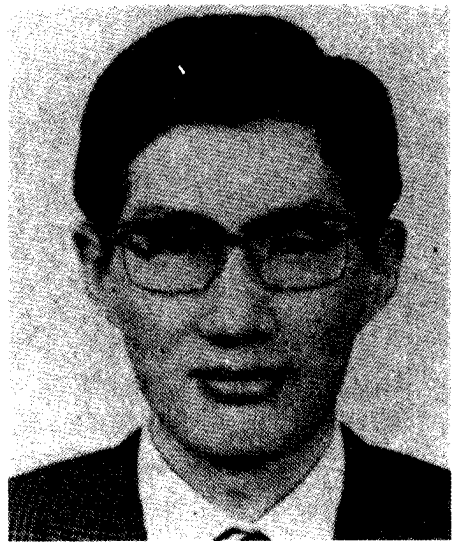
Appendix

Biographic Information

Kim Jae Ik
Senior Secretary for Economic Affairs



Newsreview

Kim Jae Ik is President Chun's top economic adviser and the chief architect of South Korean macroeconomic policy. Since being appointed Blue House secretary, Kim's top priority has been to slow inflation, but he has also pushed for structural reforms to improve the country's long-term growth potential. Kim has tried to convince the government bureaucracy to let the Korean economy "develop into a real capitalist system moving toward free trade." He opposes protectionism and has told US officials that South Korea wishes to avoid confrontations with the United States on trade and investment issues. [redacted] 25X1

Although Kim is an internationally recognized economist and has excellent connections to the academic world, his ties to business and politics are far less extensive. Korean businessmen and other Korean officials have criticized him for being too theoretical and out of touch with reality. Conservative government officials, who favor strong government participation in national economic affairs, have attacked his efforts to reduce government regulations. [redacted] 25X1

Kim is 44 years old and has a doctorate in economics from Stanford University. Kim worked at the Bank of Korea from 1960 until 1964. He served at the Economic Planning Board (EPB) as chief secretary to the Minister during 1974-75 and as head of the Bureau of Economic Planning from 1975 until 1980. In June 1980 Kim was appointed to head the Economic and Scientific Subcommittee of the Special Committee for National Security Measures, where he dealt with long-term economic planning. He served briefly as assistant minister for economic cooperation at the EPB and assumed his present position in September 1980. [redacted] 25X1

Kim Joon Sung
Deputy Prime Minister and Director of Economic Planning Board

Newsreview

Kim Joon Sung was named to his concurrent posts of Deputy Prime Minister and Minister of Economic Planning in President Chun Doo Hwan's first major Cabinet shuffle in January 1982. [redacted] 25X1 25X1 the Minister's personal economic philosophy is that government interference should be minimized and the market mechanism should be used to the greatest possible extent. [redacted] 25X1

Kim spent almost 15 years in Korea's commercial banking sector. As a professional banker with limited government experience, his appointment was met with surprise at the EPB, where he was nearly unknown. He has impressed his subordinates, however, with his aggressiveness, willingness to act independently of instructions from the Blue House or the Prime Minister's Office, and his straightforwardness in dealing with his staff and the public. EPB insiders also felt his appointment would restore some of the power and prestige the agency lost under his predecessor, Shin Byong Hyun. US Embassy officers who met with Kim shortly after he assumed his posts characterized him as reasonably forceful, precise, and articulate. [redacted] 25X1

Reactions to Kim's performance have been mixed, and to some he remains an enigma. US Embassy officers point to the fact that although Kim's name appears frequently when the EPB issues its periodic forecasts, he has rarely taken strong positions or publicly exercised the leadership role that is traditional for the Deputy Prime Minister [redacted] 25X1

Kim graduated from the Seoul High Commercial School (the equivalent of college under the Japanese occupation) in 1942. He then entered private business and was a successful textile manufacturer in Taegu. Since moving to the banking world he has been president of the Bank of Taegu (1967-75), the Korean First Bank (1975), the Korean Exchange Bank (1977), and the Korean Development Bank (1978-80). Kim served as governor of the Bank of Korea from early 1980 until he was named to his present positions. [redacted] 25X1

Kang Kyong Shik
Minister of Finance

Korea Herald

Kang Kyong Shik is a career civil servant and one of the principal shapers of current South Korean economic policy. He has extensive experience in the budget process, price management, and economic planning. He was instrumental in preparing the country's Fifth Five-Year Economic Plan (1982-86). Kang is a key supporter of Kim Jae Ik. [redacted] 25X1

Shortly after his appointment as Finance Minister in June 1982, Kang announced that the measures he would propose were aimed as much at restructuring the national economic and financial systems as they were at stimulating the economy. He stated that his basic policy aim was to achieve high growth while keeping prices stable, wage increases moderate, and interest rates low. Currently, Kang is concentrating on liberalizing the financial sector. He has encountered opposition not only from businessmen and politicians, which was expected, but from subordinates who have complained that his "reckless" policies are being forced through the ministerial bureaucracy too rapidly. [redacted] 25X1

US Embassy officers welcomed his appointment as Finance Minister, commenting that he was a good choice to provide the Ministry some badly needed direction. Throughout his government career Kang has been very accessible to American diplomats in Seoul and has impressed them as capable and thoughtful. He has also been characterized as usually easygoing, effective, and personable. Kang speaks excellent English. [redacted] 25X1

A native of North Kyongsang Province, Kang graduated from Seoul National University College of Law in 1961. Two years later he received a master's degree in public administration from the Maxwell School at Syracuse University. Kang joined the Bank of Korea in 1961. He transferred to the Economic Planning Board in 1964 and by 1969 had become chief of the EPB's Overall Budget Division, where he remained until 1973. Kang then served successively as director of the EPB's Bureaus of Price Policy, Economic Planning, and Budget. He was Assistant Minister for Planning from December 1977 until January 1982 when he joined the Ministry of Finance as its second in charge. [redacted] 25X1

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Kim Dong Whie
Minister of Commerce and Industry

Kim Dong Whie is a newcomer to the Ministry of Commerce and Industry. His instincts in economic matters are not well known, but he would be most at home in the traditionalist camp. US Embassy officials feel Kim lacks both a basic "sense of mission" and a political base, despite being a native of the same province as President Chun Doo Hwan. He himself has acknowledged his lack of expertise in such key areas as industrial policy. Embassy officials who have dealt with him over the years, however, have found him to be a quick learner and have described him as hard working, competent, and precise. Kim is well disposed toward the United States and speaks English well. He was extensively involved in the government's handling of Dow Chemical's decision in October 1982 to disinvest from South Korea. [redacted]

Camera Press [redacted]

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A native of Pusan, Kim is a 1955 graduate of Seoul National University. He entered the Foreign Ministry in 1954 and has served in Bonn, Tokyo, and Washington. He headed the Foreign Ministry's European and American Affairs Bureau from 1971 to 1974. Next he served as Assistant Minister for Economic Affairs (1974-76) and Vice Minister for Culture and Information (1976-78). Kim was Ambassador to Iran during 1978-80. He subsequently served as Vice Minister of Foreign Affairs, then was appointed to his current post in May 1982. [redacted]

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Kim Ki Hwan
President, Korea Development Institute


Newsreview

Kim Ki Hwan is one of Kim Jae Ik's chief supporters in the liberal faction and plays a key role in formulating current economic policy. Since January 1982 he has been president of the government-funded Korea Development Institute, the country's most important economic think tank. Under Kim's leadership, the Institute has continued to provide the economic liberals with the statistical arguments needed to advance their positions. Kim himself favors decentralization of economic decision making, especially in the financial arena, and a greater reliance on market forces in general.

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Kim has a good relationship with American diplomats in Seoul, who have found him candid, informative, and easy to approach. These Embassy officers have stated that Kim is one of a handful of Korean economists (including Kim Jae Ik) who can explain current trends and developments in government economic policy in a clear and highly logical framework. They further characterize Kim as the most Americanized of all the economists in the decisionmaking group. Kim speaks flawless, unaccented English.

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Kim is a graduate of Seoul National University. He also has degrees from Grinnell College in Iowa, Yale University, and a doctorate from the University of California at Berkeley. After completing his education, Kim served as a research associate at the University of British Columbia and taught economics at the University of California and at Portland State University. In 1976, he returned to Seoul as the Director of Research at the now-defunct Korea International Economic Institute. During 1979 January 1982 Kim served concurrently in the Deputy Prime Minister's office, and in the early 1980s he was head of the International Subcommittee of the Special Committee for National Security Measures, which was President Chun's "shadow cabinet" and the actual governing body in South Korea at that time.

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Chong Chu Yong
Chairman of Hyundai Business Group

Newsreview

[redacted] 25X1

Chong Chu Yong is the founder and chairman of the Hyundai Business Group, the president of the Federation of Korean Industries, and probably the richest man in South Korea. He heads Korea's most profitable multinational corporation. Hyundai is a family-run conglomerate with a labor force of approximately 130,000; it is the largest automaker in South Korea but is also involved in shipbuilding, commodities trading, shipping, and aluminum refining. Chong is a billionaire who has been described in the Korean press as the "archtype of the self-made man." Chong is well respected in South Korean business circles and in Korean society in general. He is well disposed toward the United States. [redacted] 25X1

Chong has generally been critical of President Chun Doo Hwan's economic policies and has commented that some of Chun's early decisions were made too hastily. Chong favors government economic guidance through incentives and disincentives rather than by direct fiat and has labeled direct government price controls as "unworkable." In conversations with US Embassy officers in Seoul, Chong has advocated both a greater role for the private sector and a business-led economic recovery instead of one formulated by economic theoreticians. Chong opposes recent government proposals he believes are designed to benefit foreign interests at the expense of his companies. [redacted] 25X1

Despite Chong's criticisms of the government's economic policies, he has been active in several government-sponsored economic organizations since Chun became President. [redacted] 25X1

Lee Byung Chull
Chairman of Samsung Business Group


Korea Herald

Lee Byung Chull is the founder and chairman of the Samsung (three stars) Business Group, South Korea's oldest and largest trading corporation and one of the country's largest conglomerates. In 1980 Samsung was listed as 125th out of the Fortune 500 companies outside the United States, with sales of more than $5 billion in 1981 or almost 8 percent of the country's GNP. Although Samsung specializes in producing and exporting consumer goods, such as food and textiles, it is also involved in the manufacture of such commodities as paper products, electronics components, and oceangoing tankers. Today, in its 44th year of operation, Samsung has a stake in most of the country's major private industries and has formed joint ventures with Japanese firms in electronics and synthetic textiles. 25X1

Lee, in his seventies, is a strong proponent of capitalism, and he cites the capitalist system as the reason for the country's rapid growth in recent decades. He fears that the rise of protectionism on the part of Korea's developed trading partners will have a negative effect on Samsung's export-oriented plans for the future. Lee advocates the internal direction and modification of industries and opposes government interference in private business practices. Samsung traditionally has kept the government "at arm's length," a marked contrast to the approach of cooperation and involvement Hyundai and Daewoo have taken. 25X1

Lee was arrested in the early 1960s by the Park regime but convinced President Park to release him and let him assist in building the country's economy under Park's leadership. Lee announced his full support for the Park regime's first five-year plan and organized other businessmen into the Federation of Korean Industry, which became one of Park's main pillars of support; he also served as the federation's first president. Lee subsequently became one of Park's select group of informal economic advisers and was instrumental in establishing the industrial complex at Ulsan, which currently houses many of South Korea's heavy industries. 25X1

Kim Woo Choong
Chairman of Daewoo Business Group


Asia Week [redacted]

25X1

As chairman of the Daewoo Business Group, Kim Woo Choong heads South Korea's largest exporting conglomerate; in 1981 the group employed approximately 75,000 workers and realized export revenue of almost $2 billion. Since its phenomenal growth after its establishment in 1967, Daewoo has become known as a miracle company, and Kim has emerged as one of the country's leading industrialists. Initially, the company was involved in textile manufacturing, then expanded into related products. Currently, Daewoo manufactures a variety of products, from musical instruments and hand tools to automobiles and tankers. Daewoo has emphasized capturing markets in underdeveloped countries, where Kim believes the greatest opportunity for profit exists. In August 1982 Kim accompanied President Chun on an official visit to four African nations in an attempt to expand bilateral economic cooperation there. [redacted] 25X1

Some observers have stated that Daewoo's major weakness is its dependency upon economic conditions abroad. Its prosperity may also be the result of the personal support it received from the late President Park; Park's connection with Daewoo may date from his school days in Taegu, when he was a student of Kim's father. [redacted] 25X1

Kim is in his midforties and was born into a family of educators. He received a scholarship from Hansong Industries, a textile manufacturer, to study economics at Yonsei University. Kim joined Hansong after his graduation in 1960 and by 1966 had become head of the company's export department. He left the firm in March of the following year and, along with four others, established Daewoo; he was initially involved in sales operations. As chairman, Kim spends about half of each year abroad. [redacted] 25X1

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